

**REPORT OF THE AUDIT OF THE
CLINTON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLINTON COUNTY SHERIFF

For The Year Ended
December 31, 2002

The Auditor of Public Accounts has completed the Clinton County Sheriff's audit for the year ended December 31, 2002. We have issued a qualified opinion on the financial statement taken as a whole. The Sheriff's attorney did not provide us with a legal representation letter as required by auditing standards generally accepted in the United States of America.

Financial Condition:

Excess fees increased by \$8,072 from the prior calendar year, resulting in excess fees of \$21,684 as of December 31, 2002. Revenues increased by \$2,793 from the prior year and disbursements decreased by \$5,279.

Liabilities

As of December 31, 2002, the Clinton County Sheriff's fee account had unpaid obligations of \$63,339 consisting of:

- \$21,372 to U.S. Treasurer for federal tax withholdings and matching
- \$3,934 to Kentucky State Treasurer for state tax withholdings (\$144) and carrying concealed deadly weapon license (\$3,790)
- \$1,877 to Kentucky Law Enforcement Foundation Program Fund for overpayment of grant
- \$37,246 net amount due the tax account
- \$459 to other vendors

Report Comments:

- The Sheriff Should Not Have A Deficit Of \$25,979 In His Official Fee Account As Of December 31, 2002
- The Sheriff Should Pay Excess Fees Of \$42,403 To County Treasurer For Calendar Years 2000, 2001, And 2002
- The Sheriff Should Maintain Deputy Sheriff Salaries Within Maximum Amount Set By Fiscal Court
- The Sheriff Should Properly Report Wages And Withholdings
- The Sheriff's Office Should Submit A Report To The Fiscal Court For Reimbursement Of Employer's Share Of FICA In A Timely Manner
- The Sheriff Should Prepare And Publish An Annual Settlement
- The Sheriff Should Obtain Reimbursement From State For Expenses
- The Sheriff Should Properly Remit Carrying Concealed Deadly Weapon Permits
- The Sheriff Should Require Timesheets For All Employees
- The Sheriff Should Prepare And Submit Quarterly Financial Reports To Department For Local Government
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Internal Control Over Financial Reporting

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLINTON COUNTY SHERIFF
For The Year Ended
December 31, 2002
(Continued)

Litigation:

- On July 21, 2000, Clinton County legal counsel, on behalf of the Clinton County Fiscal Court and Clinton County Taxing Districts, filed a lawsuit in Franklin Circuit Court against Clinton County Sheriff Kay Riddle and his bonding companies, Great American Insurance Company and United Pacific Insurance Company. This lawsuit seeks to recover \$58,797 owed the Clinton County Fiscal Court and Clinton County Taxing Districts per audit reports for Sheriff's Settlement – 1997 Taxes and Sheriff's Settlement – 1998 Taxes. However, as of November 22, 2002, the Sheriff had paid the following amounts included in the \$58,797: \$227 to the Kentucky State Treasurer and \$28,807 to the Clinton County Board of Education. The suit's outcome cannot be predicted at this time.
- On December 11, 2000, legal counsel, on behalf of the Clinton County Sheriff, filed a lawsuit in Clinton Circuit Court against the Clinton County Judge/Executive. This lawsuit seeks to recover \$53,814 due from the Clinton County Fiscal Court per audit report for Clinton County Sheriff – Calendar Year 1999. These funds represent Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. The suit's outcome cannot be predicted at this time.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Donnie McWhorter, Clinton County Judge/Executive

Honorable Kay Riddle, Clinton County Sheriff

Members of the Clinton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Clinton County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The \$25,979 deficit as of December 31, 2002, includes \$63,859 of receivables that are due from fiscal court based on our 1998 and 1999 audit reports. The Sheriff has filed a lawsuit to recover \$53,814 from the Clinton County Fiscal Court based on our 1999 audit report. These funds represent Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. Since this lawsuit is still in the discovery stages, no possible outcome can be predicted at this time. The deficit reported above will increase if the Sheriff loses any part of this lawsuit. The Sheriff's attorney did not provide us with a legal representation letter as required by auditing standards generally accepted in the United States of America.

In our opinion, except for the effects on excess fees, if any, of any matters that might have been disclosed had the legal representation letter been provided to us as discussed in the preceding paragraph, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Donnie McWhorter, County Judge/Executive
Honorable Kay Riddle, Clinton County Sheriff
Members of the Clinton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comment:

- The Sheriff Should Not Have A Deficit Of \$25,979 In His Official Fee Account As Of December 31, 2002
- The Sheriff Should Pay Excess Fees Of \$42,403 To County Treasurer For Calendar Years 2000, 2001 And 2002
- The Sheriff Should Maintain Deputy Sheriff Salaries Within Maximum Amount Set By Fiscal Court
- The Sheriff Should Properly Report Wages And Withholdings
- The Sheriff's Office Should Submit A Report To The Fiscal Court For Reimbursement Of Employer's Share Of FICA In A Timely Manner
- The Sheriff Should Prepare And Publish An Annual Settlement
- The Sheriff Should Obtain Reimbursement From State For Expenses
- The Sheriff Should Properly Remit Carrying Concealed Deadly Weapon Permits
- The Sheriff Should Require Timesheets For All Employees
- The Sheriff Should Prepare And Submit Quarterly Financial Reports To Department For Local Government
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Internal Control Over Financial Reporting

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, except for the effects of any matters that might have been disclosed if we had been provided a legal representation letter, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 31, 2004

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

Federal Fees For Services	\$	8,268
State - Kentucky Law Enforcement Foundation Program Fund		5,496
State Fees For Services		4,452
Circuit Court Clerk:		
Sheriff Security Service	\$	3,925
Fines and Fees Collected		933
Court Ordered Payments		7,631
		12,489
Fiscal Court		3,347
County Clerk - Delinquent Taxes		1,710
Commission On Taxes Collected		76,197
Fees Collected For Services:		
Auto Inspections	\$	4,195
Advertising Fees		600
Accident and Police Reports		100
Serving Papers		14,342
Carrying Concealed Deadly Weapons Permits		3,035
Sheriff's Fee		15,795
		38,067
Miscellaneous		1,534
Interest Earned		589
Total Receipts	\$	152,149

The accompanying notes are an integral part of this financial statement.

CLINTON COUNTY
 KAY RIDDLE, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	\$	100,274
Employee Benefits-		
Employer's Share Social Security		7,248
Contracted Services-		
Contract Labor		14,419
Materials and Supplies-		
Office Materials and Supplies	\$	3,043
Uniforms		819
		<hr/>
Auto Expense-		
Gasoline	\$	9,040
Maintenance and Repairs		1,686
		<hr/>
Other Charges-		
Court Costs To Fiscal Court	\$	4,390
Advertising		2,667
Bank Service Charges		168
Postage		304
Insurance		478
Bond		3,141
Carrying Concealed Deadly Weapons Permits		1,268
Miscellaneous		4,181
		<hr/>
Total Disbursements	\$	153,126
Less: Disallowed Disbursements		
Overpayment of Sheriff Training Incentive	\$	720
Expenditures Over The Amount That		
Sheriff May Expend For Deputies		
And Assistants		
		<hr/>
		21,941
		<hr/>
Total Allowable Disbursements	\$	130,465
Excess Fees Due County for Calendar Year 2002	\$	21,684
		<hr/>
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The accompanying notes are an integral part of this financial statement.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits under the respective fee official.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Receivables

The Clinton County Sheriff is due a receivable of \$63,859 from the Clinton County Fiscal Court.

During calendar year 1999, the Sheriff's office fee account did not earn enough money to fund \$42,481 of the Sheriff's salary. KRS 64.535 states that "[t]he . . . sheriff shall . . . receive a monthly salary of one-twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275." This statute mandates that the Sheriff is entitled to receive his statutory maximum salary, even if his office fails to generate sufficient fees and other revenues to cover all allowable expenses of his office, including the expense of the sheriff's maximum salary as set out in the salary schedule in KRS 64.5275. Thus, because the Sheriff's office had a revenue shortfall for calendar year 1999 and was unable to pay all allowable expenses for calendar year 1999, out of fees and other revenues generated by his office, it is the responsibility of the fiscal court to provide funding for the Sheriff's 1999 statutory maximum salary.

In addition, the Sheriff is due a refund of \$20,254 from the fiscal court for paying the employer's share of social security and unemployment insurance for 1998 and 1999. Also, the fiscal court should reimburse the Sheriff's office \$1,124 for overpayment of employer's share of retirement during 1999.

CLINTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2002
 (Continued)

Note 5. Litigation

- On July 21, 2000, Clinton County legal counsel, on behalf of the Clinton County Fiscal Court and Clinton County Taxing districts, filed a lawsuit in Franklin Circuit Court against Clinton County Sheriff Kay Riddle and his bonding companies, Great American Insurance Company and United Pacific Insurance Company. This lawsuit seeks to recover \$58,797 owed the Clinton County Fiscal Court and Clinton County Taxing districts per audit reports for Sheriff's Settlement - 1997 Taxes and Sheriff's Settlement - 1998 Taxes. However, as of November 22, 2002, the Sheriff had paid the following amounts included in the \$58,797: \$227 to the Kentucky State Treasurer and \$28,807 to the Clinton County Board of Education. Since this lawsuit is still in the discovery stages, no possible outcome can be predicted at this time.
- On December 11, 2000, legal counsel, on behalf of the Clinton County Sheriff, filed a lawsuit in Clinton Circuit Court against the former Clinton County Judge/Executive in her official capacity. On January 6, 2003, the lawsuit transferred against the new Clinton County Judge/Executive in his official capacity. This lawsuit seeks to recover \$53,814 due from the Clinton County Fiscal Court per audit report for Clinton County Sheriff - Calendar Year 1999. These funds represent Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. Since this lawsuit is still in the discovery stages, no possible outcome can be predicted at this time.

Note 6. Deficit

The \$25,979 deficit as of December 31, 2002 resulted from the following transactions:

Disallowed Disbursements:	
Deputies' Salaries Over Salary Limitation - 2002	\$ 21,941
Overpayment of Sheriff Training Incentive	720
Undeposited Receipts - 2002	550
Prior Year Deficit	<u>2,768</u>
Total Deficit as of December 31, 2002	<u>\$ 25,979</u>

The accompanying schedule of excess of liabilities over assets includes receivables of \$63,859 due from the fiscal court. As explained above, \$53,814 of this receivable is in litigation. Since this lawsuit is still in the discovery stages, no possible outcome can be predicted at this time. If the Sheriff loses any part of this lawsuit, his deficit will increase.

The prior year deficit reported as of December 31, 2001 was \$31,429. We have restated this amount to a prior year deficit of \$2,768. Receivables of \$63,859 due from the fiscal court, payables of \$33,649 due to the tax accounts, and an additional \$1,549 due to the Internal Revenue Service was not included in the prior year computation.

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SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 2002

Assets

Cash in Bank	\$ 22,507
Deposits in Transit	37,691
Receivables:	
Net Amount Due Sheriff From Fiscal Court	<u>3,483</u>
Total Assets	<u>\$ 63,681</u>

Liabilities

Paid Obligations:		
Outstanding Checks	\$ 2,017	
Liabilities Paid After December 31	22,755	
Unpaid Obligations:		
U.S. Treasurer - Federal Withholdings and Matching	\$ 21,372	
Kentucky State Treasurer-		
State Withholdings	\$ 144	
Carrying Concealed Deadly Weapon License Fees	<u>3,790</u>	3,934
Kentucky Law Enforcement Foundation		
Program Fund- Overpayment of Grant	1,877	
Net Amount Due Tax Account	37,246	
Other Vendors-		
Law Enforcement Equipment	\$ 119	
Vehicle Maintenance and Repairs	<u>340</u>	<u>459</u>
Total Unpaid Obligations		<u>64,888</u>
Total Liabilities		<u>\$ 89,660</u>
Total Fund Deficit as of December 31, 2002 (Note 6)		<u><u>\$ (25,979)</u></u>

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COMMENTS AND RECOMMENDATIONS

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

FEDERAL/STATE LAWS AND REGULATIONS:

- 1) The Sheriff Should Not Have A Deficit Of \$25,979 In His Official Fee Account As Of December 31, 2002

Sheriff Riddle is responsible for a deficit of \$25,979 in his official bank account as of December 31, 2002. This deficit results from \$550 in undeposited receipts, \$22,661 in disallowed expenditures, and a prior year deficit of \$2,768. The disallowed expenditures consist of \$21,941 of deputies' salaries over the salary limitation set by fiscal court and a \$720 overpayment of the Sheriff's training incentive.

The computation of the deficit includes \$63,859 of receivables that are due from the fiscal court. The Sheriff has filed a lawsuit to recover \$53,814 from the Clinton County Fiscal Court based on our 1999 audit report. These funds represent Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. Since this lawsuit is still in the discovery stages, no possible outcome can be predicted at this time. If the Sheriff loses any part of this lawsuit, his deficit will increase.

We recommend that Sheriff Riddle eliminate the \$25,979 deficit with a deposit of personal funds.

Sheriff's Response:

None.

- 2) The Sheriff Should Pay Excess Fees Of \$42,403 To County Treasurer For Calendar Years 2000, 2001 And 2002

During calendar years 2000, 2001, and 2002 the Sheriff's fee account had excess fees of \$6,907, \$13,612 and \$21,684, respectively. We recommend that the Sheriff pay the county treasurer total excess fees of \$42,403.

Sheriff's Response:

None.

- 3) The Sheriff Should Maintain Deputy Sheriff Salaries Within Maximum Amount Set By Fiscal Court

KRS 65.530(3) requires the fiscal court to fix annually the maximum amount, including fringe benefits, which the Sheriff may expend for deputies and assistants, and allow the Sheriff to determine the number to be hired and the individual compensation of each deputy and assistant. On May 23, 2002, "the Clinton fiscal Court hereby fixes the maximum amount which the Clinton County Sheriff may expend during calendar year 2002 for deputies and assistants in the Sheriff's office, at \$100,000.00.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

FEDERAL/STATE LAWS AND REGULATIONS: (Continued)

3) The Sheriff Should Maintain Deputy Sheriff Salaries Within Maximum Amount Set By Fiscal Court (Continued)

This maximum amount includes all amounts paid to deputies and assistants from fees and all amounts paid from any and all other sources, including payments from the Sheriff's Drug Fund, to deputies and assistants..." The fiscal court also included all other salaries and employer's share social security in this order. During calendar year 2002, the Sheriff expended \$121,941 on salaries and employer's share social security. Salaries for deputies and assistants of \$21,941 were disallowed for being over the maximum amount set by the fiscal court. We recommend the Sheriff comply with KRS 64.530(3) by maintaining salaries for the Sheriff's deputies and assistants within maximum amount set by fiscal court.

Sheriff's Response:

None.

4) The Sheriff Should Properly Report Wages And Withholdings

Sheriff Riddle failed to properly report wages and withholdings to the County Employees Retirement System, the Internal Revenue Service, and Kentucky Revenue Cabinet.

a) Retirement

KRS 78.610 requires employees of a participating county to contribute 5% of his or her compensation to the County Employees Retirement System (CERS). The Sheriff reports retirement wages and withholdings to the Clinton County Treasurer. He also pays retirement withholdings to the County Treasurer.

The County Treasurer then reports and pays retirement to CERS. On March 22, 2001, the Clinton County Fiscal Court voted that "[r]etirement withholding check and information from sheriff to treasurer shall be submitted by the eighth of each month." However, for calendar year 2002, retirement wages of \$30,218 and retirement withholdings of \$1,711 were not reported to the County Treasurer. In addition, retirement information was not reported in a timely manner to the County Treasurer.

The Sheriff is also required to pay the County Treasurer the employer's share of retirement for the wages reimbursed from the Kentucky Law Enforcement Foundation Program Fund (KLEFPF). The Sheriff did not pay the employer's share of retirement for KLEFPF wages to the County Treasurer.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

FEDERAL/STATE LAWS AND REGULATIONS: (Continued)

4) The Sheriff Should Properly Report Wages And Withholdings (Continued)

a) Retirement (Continued)

As of December 31, 2002, the Clinton County Sheriff's office owed the County Treasurer \$9,179 for retirement withholdings and employer's share of retirement. This amount includes the following amounts: \$452 for 1997 fees, \$2,024 for 1998 fees, \$1,756 for 1999 fees, \$2,168 for 2000 fees, \$1,068 for 2001 fees and \$1,711 for 2002 fees. In addition, as of December 31, 2002, the Clinton County Fiscal Court owed the balance of \$1,124 to the Sheriff's office for overpayment of the employer's share of retirement for 1999 fees. The Sheriff should report and pay employees' retirement wages and withholdings to the County Treasurer by the eighth of each month. Also, the Sheriff should properly pay all employer's share of retirement reimbursed from KLEFPF to the County Treasurer.

b) Federal

26 USCA § 3402 states that “. . .every employer making payment of wages shall deduct and withhold upon such wages. . .” federal income taxes. In addition, 26 USCA § 3102 requires every employer to withhold FICA from wages. Every employer is required by federal law to file each quarter an Employer's Quarterly Federal Tax Return with the Internal Revenue Service (IRS). This return should include total wages for all employees, income tax withheld from all wages, and FICA withheld. The Sheriff is not making federal deposits timely as required by federal law. Payments to the IRS were three months to nine months late.

As of December 31, 2002, the Clinton County Sheriff's office owed the Internal Revenue Service \$21,372 for federal withholdings, FICA withholdings, and employer's share of FICA. Federal returns were not filed for calendar year 2001. The Sheriff should properly report all wages and withholdings to the IRS on the Employer's Quarterly Federal Tax Returns on a timely basis. The Sheriff should also make federal deposits on a timely basis.

c) State

KRS 141.310 states that “. . .every employer making payment of wages on or after January 1, 1971, shall deduct and withhold upon the wages. . .” state income taxes. KRS 141.330 requires every employer to file on or before the last day of the month following the close of each quarterly period a return reporting the tax withheld for that quarter. This return should include total wages for all employees and Kentucky income tax withheld. As of December 31, 2002, the Clinton County Sheriff's office owed the Kentucky Revenue Cabinet \$144 for state withholdings. The Sheriff should accurately report and pay all wages and state withholdings to the Kentucky Revenue Cabinet on a timely basis.

CLINTON COUNTY
 KAY RIDDLE, COUNTY SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2002
 (Continued)

FEDERAL/STATE LAWS AND REGULATIONS: (Continued)

4) The Sheriff Should Properly Report Wages And Withholdings (Continued)

d) County

Clinton County Fiscal Court Ordinance No. 1999-OLFTAX states that “. . .effective April 1, 1999 the THREE FOURTHS OF ONE PERCENT Occupational License Fee Ordinance 1999-OLFTAX applies to all individuals, employers, partnerships, corporations, and businesses in Clinton County.” This ordinance requires every employer to “. . .withhold THREE FOURTHS OF ONE PERCENT license fee from gross wages, salaries, and commissions paid to employees for services performed within Clinton County.” The employer is to file a return of occupational tax which reports license fees withheld from employees on a quarterly basis. This return should include total wages of all employees and license fees withheld. However, for calendar year 2002, the Sheriff did not report all wages to the Clinton County Occupational Tax Administrator. As of December 31, 2002, the Clinton County Sheriff’s office owed the Clinton County Occupational Tax Administrator \$774 for license fees withheld. This amount includes the following amounts: \$224 for 1999 fees, \$178 for 2000 fees, and \$372 for 2001 fees. The Sheriff’s office should report and pay all wages and license fees withheld to the Clinton County Occupational Tax Administrator on a timely basis.

We are referring these matters to the County Employees Retirement System, the Internal Revenue Service, and the Kentucky Revenue Cabinet for further action.

Sheriff’s Response:

None.

5) The Sheriff’s Office Should Submit A Report To The Fiscal Court For Reimbursement Of Employer’s Share Of FICA In A Timely Manner

OAG 68-51 opines that the fiscal court must pay the employer’s share of FICA contributions for the county sheriff’s deputies and assistants. On March 22, 2001, The Clinton County Fiscal Court voted “that information on the Sheriff payroll shall be provided to the county treasurer two days after payroll is issued. Treasurer shall issue a check to the Sheriff for Social Security and Medicare match one day after receiving information.” During calendar year 2002, the Sheriff did not submit all reports to fiscal court for reimbursement of employer’s share of FICA. In the future, the Sheriff should submit a report to the Fiscal Court for reimbursement of employer’s share of FICA two days after payroll is issued.

Sheriff’s Response:

None.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

FEDERAL/STATE LAWS AND REGULATIONS: (Continued)

6) The Sheriff Should Prepare And Publish An Annual Settlement

The Sheriff has not prepared an annual settlement as required by KRS 134.310(5). KRS 134.310(5) requires the Sheriff to file an annual settlement with the fiscal court when he files his yearly tax settlement, with September 1 being the latest date to file. In addition, the Sheriff did not publish an annual settlement in accordance with KRS 424.220, which requires financial statements be published within 60 days after the end of the calendar year. We recommend the Sheriff comply with these statutes by preparing, publishing, and filing an annual settlement within the proper time periods.

Sheriff's Response:

None.

7) The Sheriff Should Obtain Reimbursement From State For Expenses

The Sheriff is allowed to obtain reimbursement from the Commonwealth of Kentucky for certain expenses. Some of these expenses are waiting on the court, transporting prisoners, and return of fugitives. Sheriff Riddle did not obtain reimbursement for these expenses during calendar year 2002. We recommend that in the future Sheriff Riddle obtain reimbursement from the state for expenses whenever possible.

Sheriff's Response:

None.

8) The Sheriff Should Properly Remit Carrying Concealed Deadly Weapon Permits

KRS 237.110(4) requires the Sheriff to collect a \$60 fee for each Carrying Concealed Deadly Weapon (CCDW) Permits. Sheriff Riddle is required to submit \$40 of the \$60 collected to the Kentucky State Treasurer for the Department of State Police (\$20) and Administrative Office of the Courts (\$20). As of December 31, 2002, Sheriff Riddle owed the Kentucky State Treasurer \$3,790 for CCDW license fees. We were unable to determine an amount for calendar year 2002, but this amount includes the following amounts: \$160 for calendar year 1998, \$640 for calendar year 1999, \$1,875 for calendar year 2000 and \$1,115 for calendar year 2001. We recommend Sheriff Riddle make proper payments to the Kentucky State Treasurer.

Sheriff's Response:

None.

CLINTON COUNTY
 KAY RIDDLE, COUNTY SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2002
 (Continued)

FEDERAL/STATE LAWS AND REGULATIONS: (Continued)

9) The Sheriff Should Require Timesheets For All Employees

KRS 337.320 states, “[e]very employer shall keep a record of : (a) the amount paid each pay period to each employee; (b) the hours worked each day and each week by each employee; and (c) such information as the secretary requires.” The Sheriff did not comply with this statute. During test of payroll, we observed the timesheets on which a note was written “regular salary, pays monthly.” We recommend the Sheriff comply with KRS 337.320.

Sheriff's Response:

None.

10) The Sheriff Should Prepare And Submit Quarterly Financial Reports To Department For Local Government

The Department For Local Government (DLG) Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual requires all sheriffs to prepare quarterly financial reports and submit the reports “by the 30th day following the close of each quarter” to DLG, Office of the Governor, Commonwealth of Kentucky. The Sheriff’s office did not prepare or submit any quarterly financial reports to DLG for calendar year 2002. We recommend the Sheriff comply with DLG requirements to prepare and submit quarterly financial reports for each quarter.

Sheriff's Response:

None.

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

11) Lacks Adequate Segregation Of Duties

The Sheriff’s office has a lack of segregation of duties. Due to the entity’s diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. Once some of our other recommendations have been implemented, we would recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:
(Continued)

11) Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

None.

12) The Sheriff Should Improve Internal Control Over Financial Reporting

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level the risk, that material errors in the financial statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. During the audit of the Sheriff's office for calendar year 2002, we noted the following:

- Receipts were not deposited intact daily. Also deposits were not made timely. Technical Audit Bulletin 93-002, Section 3 requires the Sheriff to deposit funds intact on a daily basis.
- The Sheriff's disbursements ledger was not posted accurately. KRS 68.210, the Uniform System of Accounts, requires the Sheriff to keep and maintain a daily disbursement ledger. There were unrecorded and incorrectly classified disbursements.
- The Sheriff did not properly reconcile the bank account.
- Receipts ledger and disbursements ledger did not have yearly totals.
- The fourth quarterly financial report was not prepared or submitted to the Department For Local Government.
- Gross payroll per the disbursements ledger did not match individual earnings records and payroll was not always listed on the individual earnings records.
- The Sheriff did not request reimbursement for the employer's share of FICA in a timely manner.
- Time reports did not list hours worked.
- The Sheriff expended more for deputies' salaries than was approved by fiscal court.
- Payroll disbursements for employees were not always listed on individual earning records.
- The Sheriff should review the definition of an employee.
- The Sheriff should not allow advancements in payroll.
- Supporting documentation for all expenditures should be maintained in the Sheriff's office.
- Court costs collected for fiscal court were not paid properly.
- The Sheriff should attempt to collect returned checks.
- The Sheriff should request reimbursements from the state for expenses.
- The Sheriff should maintain proper records for gasoline used from the holding tank.
- The Sheriff should properly document gasoline charges.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:
(Continued)

12) The Sheriff Should Improve Internal Control Over Financial Reporting (Continued)

We recommend the Sheriff place procedures in operation so that internal control over financial reporting is improved and accurate financial records are maintained.

Sheriff's Response:

None.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS:

In the prior year audit report, the following comments and recommendations were reported and not corrected:

- The Sheriff Should Not Have A Deficit In His Official Fee Account As Of December 31, 2001
- The Sheriff Should Pay Excess Fees Of \$20,519 To County Treasurer For Calendar Years 2000 And 2001
- The Sheriff Should Maintain Deputy Sheriff Salaries Within Maximum Amount Set By Fiscal Court
- The Sheriff Should Limit Official Expenses To Amounts Fixed By Fiscal Court
- The Sheriff Should Properly Report Wages And Withholdings
- The Sheriff's Office Should Submit A Report To The Fiscal Court For Reimbursement Of Employer's Share Of FICA In A Timely Manner
- The Sheriff Should Prepare And Publish An Annual Settlement
- The Sheriff Should Obtain Reimbursement From State For Expenses
- The Sheriff Should Properly Remit Carrying Concealed Deadly Weapon Permits
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Maintain Accurate Accounting Records

The Sheriff corrected the following prior year finding:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$62,250 To Protect Deposits

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie McWhorter, Clinton County Judge/Executive
Honorable Kay Riddle, Clinton County Sheriff
Members of the Clinton County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Clinton County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated March 31, 2004. The opinion was qualified because the Sheriff's attorney did not provide us with a legal representation letter as required by auditing standards generally accepted in the United States of America. Except as discussed above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Clinton County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Not Have A Deficit Of \$25,979 In His Official Fee Account As Of December 31, 2002
- The Sheriff Should Pay Excess Fees Of \$42,403 To County Treasurer For Calendar Years 2000, 2001 And 2002
- The Sheriff Should Maintain Deputy Sheriff Salaries Within Maximum Amount Set By Fiscal Court
- The Sheriff Should Properly Report Wages And Withholdings
- The Sheriff's Office Should Submit A Report To The Fiscal Court For Reimbursement Of Employer's Share Of FICA In A Timely Manner
- The Sheriff Should Prepare And Publish An Annual Settlement
- The Sheriff Should Obtain Reimbursement From State For Expenses
- The Sheriff Should Properly Remit Carrying Concealed Deadly Weapon Permits
- The Sheriff Should Require Timesheets For All Employees
- The Sheriff Should Prepare And Submit Quarterly Financial Reports To Department For Local Government

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clinton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Internal Control Over Financial Reporting

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 31, 2004

